

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 7012

BILL NUMBER: HB 1966

DATE PREPARED: Feb 11, 2001

BILL AMENDED:

SUBJECT: Over Age 65 Property Tax Deduction.

FISCAL ANALYST: Bob Sigalow

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FUNDS AFFECTED:

X

**GENERAL
DEDICATED
FEDERAL**

IMPACT: State & Local

Summary of Legislation: This bill eliminates the following: (1) The adjusted gross income limitation for an individual claiming the property tax deduction for persons age 65 and older and (2) the assessed value limitation for the real property or a mobile home for which the deduction is claimed. The bill allows a person who becomes eligible for the deduction after the elimination of the adjusted gross income and assessed value limitations to claim the deduction beginning with property taxes assessed in 2001. It also reconciles conflicts between statutes enacted by the 1999 General Assembly.

Effective Date: March 1, 2001 (retroactive).

Explanation of State Expenditures:

Explanation of State Revenues: The State levies a tax rate for State Fair and State Forestry. Any reduction in the assessed value (AV) base will reduce the property tax revenue for these two funds. The provisions of this bill would reduce this amount by about \$5,200 annually beginning in CY 2002.

Explanation of Local Expenditures:

Explanation of Local Revenues: Under current law, homeowners may claim a \$2,000 AV property tax deduction if they are at least age 65. To qualify, the taxpayer's adjusted gross income may not exceed \$25,000 and the assessed value (AV) of the residence may not exceed \$23,000. This bill would remove the income and AV caps.

Because of a change in the definition of assessed value that will take effect with the 2001 payable 2002 tax year, the Age 65 deduction will be equal to \$6,000 AV and the maximum AV will be \$69,000. Tax rates will be adjusted to account for this assessed value change. These scheduled changes do not affect final tax bills in any way. For clarity, references to assessed valuation will be in 2002 terms.

Estimation Issues: In estimating the impact of this bill, it was assumed that the currently proposed real property assessment rule will be used to revalue property for the next reassessment. It was also assumed that the next reassessment will apply to property assessed in 2002 with taxes first paid in 2003 as mandated in the latest order from the Indiana Tax Court.

Fiscal Analysis: For the 1999 Pay 2000 property tax year, the elderly deduction totaled \$601.3 M AV (2002 terms). Using sample data, it was estimated that the number of taxpayers who qualify for the deduction would increase by about 26% if the income and AV caps were removed. Based on the 26% estimated increase in taxpayers who qualify, it was then estimated that the additional deductions would amount to about \$157.5 M AV.

Additional deductions reduce the assessed value tax base. This causes a shift of the property tax burden from the taxpayers receiving the deductions to all taxpayers in the form of an increased tax rate. The above \$157.5 M reduction in assessed value would cause a \$0.0027 increase in the statewide average net property tax rate in CY 2002 for an estimated net tax burden shift of \$4.8 M. After CY 2002, the net rate increase is estimated at \$0.0012 with net tax shifts of \$3.4 M in CY 2003 and CY 2004.

Total local civil unit revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the deduction amount applicable to that fund.

State Agencies Affected: State Fair Board, Department of Natural Resources.

Local Agencies Affected: County Auditor Offices.

Information Sources: Local Government Database; Indiana Poll, 1998, Indiana University Center for Survey Research.